

**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Monday August 2, 1976

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State Department review completed


  
 NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Monday, August 2, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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## SYRIA: New Prime Minister

25X1 [ ] The designation of Major General Abd Ar-Rahman Khulayfawi as Syria's new prime minister to replace Mahmud al-Ayyubi who resigned, reflects President Asad's confidence in his domestic position and his policies, especially toward Lebanon.

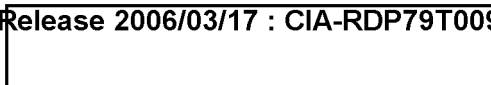
25X1 [ ] Ayyubi offered to resign after losing his top party post in intraparty elections last year. Asad believed, however, that an effort to unseat Ayyubi was directed at curtailing his own power, and he refused to replace Ayyubi in order to avoid any appearance of giving in to internal pressures.

25X1 [ ] With Syrian troops entrenched in Lebanon and a Syrian-Palestinian accord reached, Asad apparently believes that his position is strong enough to go ahead with the cabinet change. No other cabinet appointments have been announced, but many key ministers are likely to retain their positions in order to underscore Asad's intention to continue his present policies.

25X1 [ ] Khulayfawi is a long time confidant of President Asad. He was one of Asad's key supporters when Asad took power in 1970, and he served as minister of interior and prime minister until ill health forced him to resign in late 1972. Well regarded in both party and military circles, Khulayfawi is a strong, effective, pragmatic administrator.

25X1 [ ] Like Ayyubi, Khulayfawi is from a prominent Damascus family and is a member of Syria's Sunni orthodox Muslim majority. His selection preserves the regional and confessional balance in Asad's regime. Asad and many of his supporters in the army belong to a small Muslim sect from Syria's coastal region. Asad may also have appointed Khulayfawi as prime minister to strengthen support for the government within the military.

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#### USSR: Sino-Soviet Activities


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 //We do not think that recently noted Chinese and Soviet activities in the small island states of the Southwest Pacific are a portent of a significantly increased presence there. Nevertheless the interest in the area of both countries can be expected to continue as additional island dependencies achieve nationhood over the next several years.//

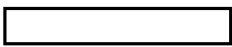
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 //Recently increased activity is small scale and consistent with the desire of both countries to expand their world-wide presence and influence by traditional means of diplomatic relations, trade, and aid.//


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 //The USSR has a strong interest in expanding fishing operations wherever it can. We believe this would be a major motivating factor of any further increase in Soviet activity in the area.//

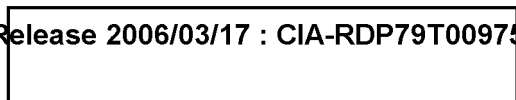
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 //The USSR has not shown a naval interest in the area. To be sure, there is a long-range Soviet interest in US lines of communication with its allies, including Australia and New Zealand. But we do not anticipate that this interest will lead the USSR to increase its naval presence in the Southwest Pacific in the near future.//

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 //In this area, as in others, Moscow-Peking rivalry is an element in stimulating the interest of both. Peking's concerns are particularly heightened by its broader anxieties over growing Soviet naval strength in the Pacific. Peking's rivalry with Taiwan also stimulates its interest in diplomatic relations.//

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[REDACTED] //The small island states have been extremely cautious in their dealings with Moscow and Peking and are likely to remain so. [REDACTED]

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WEST GERMANY: Guest Workers

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[REDACTED] The West German government is supporting development of new industries in labor-surplus countries such as Turkey and Yugoslavia to encourage foreign workers to return home.

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[ ] According to the German press, Bonn hopes soon to have the program ready to be announced publicly. Its principal feature will be an investment fund to provide capital for the creation of the new enterprises. The projected fund will be supported by:

--Contributions of about \$1.2 billion annually from the West German development aid budget.

--Savings deposited in German banks by foreign workers.

--Possibly, credits provided by the governments of the labor-exporting countries.

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[ ] West German officials reportedly plan soon to discuss the details with Turkey and Yugoslavia--the two countries that supply half the foreign laborers in West Germany.

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[ ] The concept of establishing new industries in southern European countries is not new. West German and Yugoslav officials have discussed for several years the idea of utilizing foreign workers' savings for this purpose. Minister for Economic Cooperation Bahr got a favorable response when he raised the idea with the Turks last March.

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[ ] Bonn has clearly decided to reduce the number of foreign laborers in West Germany, although the recession has already led to a decline from about 2.6 million in late 1973 to about 1.9 million today. Officials in the labor-supplying countries will probably endorse the investment program but some, particularly the Turks, will be disturbed at Bonn's desire to limit access to its labor market.

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[ ] Ankara has been seeking EC agreement on freer movement for Turkish workers as part of a larger package improving the terms of its associate membership in the Community. [ ]

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EC: Law of the Sea

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[REDACTED] //EC foreign ministers this week agreed to adopt a common stand at the Law of the Sea negotiations, which open today in New York. The Community has made considerable progress in working out common positions on some Law of the Sea issues, but major problems must still be resolved.//

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[REDACTED] //The Nine will seek a clause which would allow regional economic groups such as the EC to become parties to the convention. The Nine also have adopted common positions on the creation of an international seabed authority in which the EC would participate and on a mechanism for the settlement of disputes.//

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[REDACTED] //The EC generally supports giving littoral states mineral jurisdiction over that part of the continental shelf which extends beyond 200 nautical miles. The Irish and the UK, however, are holding out against sharing the benefits from the exploitation of such mineral resources among all states.//

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[REDACTED] //The Community is also divided over the question of preventing monopolistic exploitation of the seabed. Bonn--anticipating that this will be an issue in the federal election campaign--is likely to push strongly for non-discriminatory access to deep seabed resources as well as against restrictions on scientific marine research.//

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[REDACTED] //The foreign ministers also announced agreement in principle to create a fishing zone extending 200 miles from the territory of the member states.//

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[REDACTED] //The UK has been pushing hard for this decision. London fears that foreign fishermen--particularly Soviet--will converge on Community waters when the US, Norway, and Canada, following Iceland's example, unilaterally establish a 200-mile fishing zone early next year.//

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[REDACTED] //The Nine, responding in part to West German, Dutch, and Italian resistance to taking action before the question had been resolved at the UN talks, agreed to delay issuing a formal declaration until after this session concludes in September.//

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[REDACTED] //The declaration raises many additional problems for the Community, however, including negotiating reciprocal fishing rights with third countries. The Commission has already begun to sound out several countries--Iceland, Norway, Canada and the US--on fishing rights.//

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[REDACTED] //The question of Community prerogatives is likely to arise once negotiations formally begin. The Soviets, for example, will presumably insist on maintaining fishing rights in EC waters, but have shown no willingness to deal directly with the Community. [REDACTED]

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US - EAST GERMANY: US Relations

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[REDACTED] In an unusually positive but low-key gesture in late July, an East German friendship society presented an unexpected

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US bicentennial program. Invitations to the event were received only three days in advance, and several East German officials appeared to go out of their way to obtain assurances that Ambassador Cooper would attend.

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[ ] The program, which included a surprisingly objective overview of US history, was well covered by East German television and press.

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[ ] The US embassy believes that this gesture--in contrast with the pro forma coverage of the embassy's bicentennial reception--was intended to demonstrate the Honecker leadership's interest in a further improvement in bilateral relations.

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[ ] The East German interest was also evident in East German Ambassador Sieber's talks with State Department officials prior to his return for home leave and consultation. Sieber tried hard to make some progress on trade and fisheries issues. Negotiations on a consular agreement are at an impasse because of East German insistence that their existence as a sovereign state be specifically spelled out in any consular agreement.

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BRAZIL: Trade Deficit Declining

[ ] Brazil's efforts to slash its trade deficit are making headway.

[ ] The deficit fell to \$1.3 billion during the first six months of 1976, compared with \$1.8 billion in the same period last year. Exports should increase about 16 percent in the second half of 1976. It was 5 percent in the first half, for an overall 11 percent for the year. The trade deficit for the year as a whole should be 60 percent lower than last year.

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[ ] Despite rising interest payments on foreign debt, the improvement in the trade balance is likely to reduce the current-account deficit to \$5 billion for the year--down nearly \$2 billion from 1975.

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[ ] After a slow first quarter--caused by reduced sugar sales, the result of lower world prices and the July 1975 frost--export earnings are picking up rapidly this year. Foreign sales in June climbed to \$1 billion, the highest monthly total ever accumulated.

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[ ] A record value of coffee exports made up nearly one third of the total. Sharply rising world coffee prices contributed to the jump. Increased soybean prices and a decision to discontinue at the end of June tax incentives designed to promote soybean exports also were factors in Brazil's record June trade performance.

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[ ] Stringent import controls also are an important factor in the trade improvement. Government organizations, which account for nearly half of all imports, have been ordered to cut purchases abroad by 25 percent in 1976, and the requirement for a non-interest-bearing advance deposit with the Central Bank equivalent to the value of an import has been expanded to cover nearly one third of Brazil's imports.

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[ ] Overall import volume, already down about 4 percent in the first six months, is unlikely to exceed 90 percent of the 1975 level.

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[ ] Record harvests for some crops and a revival of industrial output prompted by strengthened consumer demand in the first half of the year should raise Brazil's real economic growth rate slightly--to 5 percent--in 1976 despite import restrictions. This recovery still leaves the country well below the 10 percent averaged annually during the 1968-1974 boom period. [ ]

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